

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE R-20 - FLAMINGO HEIGHTS**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-20  
Flamingo Heights  
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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone R-20 - Flamingo Heights

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone R-20 - Flamingo Heights (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone R-20 - Flamingo Heights, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

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The County of San Bernardino Special District County Service Area No. 70 - Zone R-20 - Flamingo Heights has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-20 - Flamingo Heights**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents  
Interest receivable

\$ 9,235  
56

Total Assets

9,291

**LIABILITIES**

-

**NET ASSETS**

Unrestricted

9,291

Total Net Assets

\$ 9,291

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-20 - Flamingo Heights**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 2,276
Services and supplies	9,265
Total Program Expenses	<u>11,541</u>

**PROGRAM REVENUES**

Charges for services	<u>11,652</u>
Net Program Revenue	<u>111</u>

**GENERAL REVENUES**

Property taxes	551
Investment earnings	<u>249</u>
Total General Revenues	<u>800</u>

Change in Net Assets	911
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<b>Net Assets - beginning</b>	<u>8,380</u>
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<b>Net Assets - ending</b>	<u><u>\$ 9,291</u></u>
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-20 - Flamingo Heights**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2003**

	SPECIAL REVENUE FUND
	General (SNS)
<b>ASSETS</b>	
Cash and cash equivalents	\$ 9,235
Interest receivable	56
Total Assets	<u>\$ 9,291</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities	<u>\$ -</u>
Fund Balances:	
Unreserved:	
Undesignated	<u>9,291</u>
Total Fund Balances	<u>9,291</u>
Total Liabilities and Fund Balances	<u>\$ 9,291</u>
<b>Total fund balances - governmental fund</b>	\$ 9,291
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
None	<u>-</u>
Net assets of governmental fund	<u>\$ 9,291</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-20 - Flamingo Heights**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the Year Ended June 30, 2003**

	SPECIAL REVENUE FUND
	General (SNS)
<b>REVENUES</b>	
Property taxes	\$ 551
Special assessments	11,652
Investment earnings	249
Total Revenues	<u>12,452</u>
<b>EXPENDITURES</b>	
Salaries and benefits	2,276
Services and supplies	9,265
Total Expenditures	<u>11,541</u>
Net Change in Fund Balances	911
Fund Balances - beginning	<u>8,380</u>
Fund Balances - ending	<u>\$ 9,291</u>

The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-20 - Flamingo Heights  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Fund to the  
Statement of Activities  
For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Fund	\$ 911
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Amounts reported for governmental activities in the statement of activities  
are different because:

None	-
------	---

Change in net assets of governmental activities	<u>\$ 911</u>
---	---------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-20 - Flamingo Heights  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 R-20 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 30 miles of unpaved roads.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 R-20 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-20 - Flamingo Heights**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-20 - Flamingo Heights**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-20 - Flamingo Heights**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Currently, the CSA does not have any capital assets.

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-20 - Flamingo Heights**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-20 - Flamingo Heights**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 3: RETIREMENT PLAN (continued)**

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**NOTE 4: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-20 - Flamingo Heights**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-20 - Flamingo Heights**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: RISK MANAGEMENT (continued)**

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 6: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-20 - Flamingo Heights**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (SNS)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ 551	\$ 551
Special assessments	11,505	11,505	11,652	147
Investment earnings	200	200	249	49
Total Revenues	11,705	11,705	12,452	747
<b>EXPENDITURES</b>				
Salaries and benefits	2,276	2,276	2,276	-
Services and supplies	13,684	13,684	9,265	4,419
Reserves and contingencies	4,125	4,125	-	4,125
Total Expenditures	20,085	20,085	11,541	8,544
Net Change in Fund Balances	\$ (8,380)	\$ (8,380)	911	\$ 9,291
Fund Balances - beginning			8,380	
Fund Balances - ending			\$ 9,291	

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE R-21 - MOUNTAIN VIEW**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts  
County Service Area No. 70  
Zone R-21 - Mountain View  
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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone R-21 - Mountain View

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone R-21 - Mountain View (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone R-21 - Mountain View, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**MEMBERS**

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The County of San Bernardino Special District County Service Area No. 70 - Zone R-21 - Mountain View has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-21 - Mountain View**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 9,833
Interest receivable	46
Capital assets, net of depreciation	<u>31,336</u>
Total Assets	<u>41,215</u>

**LIABILITIES**

Due to other governments	<u>318</u>
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**NET ASSETS**

Invested in capital assets	31,336
Unrestricted	<u>9,561</u>
Total Net Assets	<u>\$ 40,897</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-21 - Mountain View**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 2,618
Services and supplies	1,445
Depreciation	1,306
Total Program Expenses	<u>5,369</u>

**PROGRAM REVENUES**

Charges for services	<u>2,252</u>
Net Program Expense	<u>(3,117)</u>

**GENERAL REVENUES**

Property taxes	412
Investment earnings	257
Total General Revenues	<u>669</u>

Change in Net Assets	(2,448)
----------------------	---------

<b>Net Assets - beginning</b>	<u>43,345</u>
-------------------------------	---------------

<b>Net Assets - ending</b>	<u><u>\$ 40,897</u></u>
----------------------------	-------------------------

The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-21 - Mountain View**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2003**

	SPECIAL REVENUE FUND General (SNM)
<b>ASSETS</b>	
Cash and cash equivalents	\$ 9,833
Interest receivable	46
Total Assets	<u>\$ 9,879</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Due to other governments	\$ 318
Total Liabilities	<u>318</u>
Fund Balances:	
Unreserved:	
Undesignated	<u>9,561</u>
Total Fund Balances	<u>9,561</u>
Total Liabilities and Fund Balances	<u>\$ 9,879</u>
<b>Total fund balances - governmental fund</b>	\$ 9,561
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	<u>31,336</u>
Net assets of governmental fund	<u>\$ 40,897</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-21 - Mountain View**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the Year Ended June 30, 2003**

	SPECIAL REVENUE FUND
	General (SNM)
<b>REVENUES</b>	
Property taxes	\$ 412
Special assessments	2,252
Investment earnings	257
Total Revenues	<u>2,921</u>
<b>EXPENDITURES</b>	
Salaries and benefits	2,618
Services and supplies	<u>1,445</u>
Total Expenditures	<u>4,063</u>
Net Change in Fund Balances	(1,142)
Fund Balances - beginning	<u>10,703</u>
Fund Balances - ending	<u><u>\$ 9,561</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-21 - Mountain View**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balances of Governmental Fund to the**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Fund	\$	(1,142)
---	----	---------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

(1,306)

Change in net assets of governmental activities	\$	(2,448)
---	----	---------

(2,448)

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-21 - Mountain View**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 Zone R-21 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 1,300 feet of paved roads.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone R-21 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-21 - Mountain View**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-21 - Mountain View**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-21 - Mountain View**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-21 - Mountain View**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, being depreciated:				
Infrastructure	\$ 52,227	\$ -	\$ -	\$ 52,227
Total capital assets, being depreciated	52,227	-	-	52,227
Less accumulated depreciation for:				
Infrastructure	(19,585)	(1,306)	-	(20,891)
Total accumulated depreciation	(19,585)	(1,306)	-	(20,891)
Total capital assets, being depreciated, net	\$ 32,642	\$ (1,306)	\$ -	\$ 31,336

**NOTE 4: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.



**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-21 - Mountain View  
Notes to Financial Statements  
June 30, 2003**

**NOTE 4: RETIREMENT PLAN (continued)**

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<b>Year Ended June 30,</b>	<b>Annual Pension Cost (in thousands)</b>	<b>Percentage Contributed</b>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-21 - Mountain View**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 6: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-21 - Mountain View**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 6: RISK MANAGEMENT (continued)**

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 7: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-21 - Mountain View**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (SNM)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ 412	\$ 412
Special assessments	2,000	2,000	2,252	252
Investment earnings	-	-	257	257
Total Revenues	2,000	2,000	2,921	921
<b>EXPENDITURES</b>				
Salaries and benefits	2,618	2,618	2,618	-
Services and supplies	4,169	4,169	1,445	2,724
Reserves and contingencies	5,916	5,916	-	5,916
Total Expenditures	12,703	12,703	4,063	8,640
Net Change in Fund Balance	\$ (10,703)	\$ (10,703)	(1,142)	\$ 9,561
Fund Balances - beginning			10,703	
Fund Balances - ending			\$ 9,561	

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE R-22 - TWIN PEAKS**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts  
County Service Area No. 70  
Zone R-22 - Twin Peaks  
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## ROGERS, ANDERSON, MALODY & SCOTT, LLP

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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone R-22 - Twin Peaks

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone R-22 - Twin Peaks (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone R-22 - Twin Peaks, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

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CALIFORNIA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

The County of San Bernardino Special District County Service Area No. 70 - Zone R-22 - Twin Peaks has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-22 - Twin Peaks**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 17,697
Interest receivable	87
Capital assets, net of depreciation	<u>192,909</u>
Total Assets	<u>210,693</u>

**LIABILITIES**

Due to other governments	<u>6,064</u>
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**NET ASSETS**

Invested in capital assets, net of depreciation	192,909
Unrestricted	<u>11,720</u>
Total Net Assets	<u><u>\$ 204,629</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-22 - Twin Peaks**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 4,809
Services and supplies	4,696
Depreciation	7,301
Total Program Expenses	<u>16,806</u>

**PROGRAM REVENUES**

Charges for services	21,281
Net Program Revenue	<u>4,475</u>

**GENERAL REVENUES**

Property taxes	178
Investment earnings	663
Total General Revenues	<u>841</u>

Change in Net Assets	5,316
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<b>Net Assets - beginning</b>	<u>199,313</u>
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<b>Net Assets - ending</b>	<u><u>\$ 204,629</u></u>
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The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-22 - Twin Peaks  
Balance Sheet  
Governmental Funds  
June 30, 2003

	SPECIAL REVENUE FUND General (SOB)	CAPITAL PROJECTS FUND Native (CNR)	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 17,669	\$ 28	\$ 17,697
Interest receivable	87	-	87
<b>Total Assets</b>	<b>\$ 17,756</b>	<b>\$ 28</b>	<b>\$ 17,784</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Due to other governments	\$ 6,064	\$ -	\$ 6,064
<b>Total Liabilities</b>	<b>6,064</b>	<b>-</b>	<b>6,604</b>
Fund Balances:			
Unreserved:			
Undesignated	11,692	28	11,720
<b>Total Fund Balances</b>	<b>11,692</b>	<b>28</b>	<b>11,720</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 17,756</b>	<b>\$ 28</b>	

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	192,909
<b>Net assets of governmental funds</b>	<b>\$ 204,629</b>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-22 - Twin Peaks**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2003**

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	Total Governmental Funds
	General (SOB)	Native (CNR)	
<b>REVENUES</b>			
Property taxes	\$ 178	\$ -	\$ 178
Special assessments	21,281	-	21,281
Investment earnings	531	132	663
Total Revenues	<u>21,990</u>	<u>132</u>	<u>22,122</u>
<b>EXPENDITURES</b>			
Salaries and benefits	4,809	-	4,809
Services and supplies	4,696	-	4,696
Capital outlay:			
Improvements to land	-	24,995	24,995
Total Expenditures	<u>9,505</u>	<u>24,995</u>	<u>34,500</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>12,485</u>	<u>(24,863)</u>	<u>(12,378)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in	-	24,891	24,891
Transfer out	(24,891)	-	(24,891)
Total Other Financing Sources (Uses)	<u>(24,891)</u>	<u>24,891</u>	<u>-</u>
Net Change in Fund Balances	(12,406)	28	(12,378)
Fund Balances - beginning	<u>24,098</u>	<u>-</u>	<u>24,098</u>
Fund Balances - ending	<u>\$ 11,692</u>	<u>\$ 28</u>	<u>\$ 11,720</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-22 - Twin Peaks**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Funds	\$	(12,378)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

17,694

Change in net assets of governmental activities

\$ 5,316

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-22 - Twin Peaks  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 - Zone R-22 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 1 mile of paved roads.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 - Zone R-22 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-22 - Twin Peaks**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* labeled "Native" is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-22 - Twin Peaks**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-22 - Twin Peaks**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-22 - Twin Peaks**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Reconciliation of government-wide and fund financial statements**

**Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.**

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$17,694 difference are as follows:

Capital outlay	\$ 24,995
Depreciation expense	<u>(7,301)</u>
Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 17,694</u>

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-22 - Twin Peaks**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ 24,995	\$ -	\$ 24,995
Total capital assets, not being depreciated	-	24,995	-	24,995
Capital assets, being depreciated:				
Infrastructure	292,025	-	-	292,025
Total capital assets, being depreciated	292,025	-	-	292,025
Less accumulated depreciation for:				
Infrastructure	(116,810)	(7,301)	-	(124,111)
Total accumulated depreciation	(116,810)	(7,301)	-	(124,111)
Total capital, assets being depreciated, net	175,215	(7,301)	-	167,914
Governmental activities capital assets, net	<u>\$ 175,215</u>	<u>\$ 17,694</u>	<u>\$ -</u>	<u>\$ 192,909</u>

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-22 - Twin Peaks**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 4: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-22 - Twin Peaks**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 4: RETIREMENT PLAN (continued)**

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**NOTE 5: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 6: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-22 - Twin Peaks**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 6: RISK MANAGEMENT (continued)**

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<b>Fiscal Year</b>	<b>Beginning of Fiscal Year Liability (in thousands)</b>	<b>Current Year Claims and Changes in Estimates (in thousands)</b>	<b>Claims Payments (in thousands)</b>	<b>End of Fiscal Year Liability (in thousands)</b>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 7: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-22 - Twin Peaks**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (SOB)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ 178	\$ 178
Special assessments	18,000	18,000	21,281	3,281
Investment earnings	500	500	531	31
Other	-	6,000	-	(6,000)
Total Revenues	18,500	24,500	21,990	(2,510)
<b>EXPENDITURES</b>				
Salaries and benefits	4,809	4,809	4,809	-
Services and supplies	15,639	15,639	4,696	10,943
Reserves and contingencies	2,150	2,150	-	2,150
Total Expenditures	22,598	22,598	9,505	13,093
Excess of Revenues Over Expenditures	(4,098)	1,902	12,485	(10,583)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer out	(20,000)	(26,000)	(24,891)	1,109
Total Other Financing Sources (Uses)	(20,000)	(26,000)	(24,891)	1,109
Net Change in Fund Balances	\$ (24,098)	\$ (24,098)	(12,406)	\$ 11,692
Fund Balances - beginning			24,098	
Fund Balances - ending			\$ 11,692	

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE R-23 - MILE HIGH PARK**

**REPORT ON AUDIT**

**JUNE 30, 2003**



**County of San Bernardino Special Districts  
County Service Area No. 70  
Zone R-23 - Mile High Park  
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## ROGERS, ANDERSON, MALODY & SCOTT, LLP

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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone R-23 - Mile High Park

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone R-23 - Mile High Park (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone R-23 - Mile High Park, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

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The County of San Bernardino Special District County Service Area No. 70 - Zone R-23 - Mile High Park has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-23 - Mile High Park**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 32,635
Interest receivable	175
Capital assets, net of depreciation	<u>15,767</u>
Total Assets	<u>48,577</u>

**LIABILITIES**

Due to other governments	<u>127</u>
--------------------------	------------

**NET ASSETS**

Invested in capital assets	15,767
Unrestricted	<u>32,683</u>
Total Net Assets	<u>\$ 48,450</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-23 - Mile High Park**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 3,542
Services and supplies	8,671
Depreciation	<u>426</u>
Total Program Expenses	<u>12,639</u>

**PROGRAM REVENUES**

Charges for services	<u>14,701</u>
Net Program Revenue	<u>2,062</u>

**GENERAL REVENUES**

Property taxes	336
Investment earnings	<u>874</u>
Total General Revenues	<u>1,210</u>

Change in Net Assets	3,272
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Net Assets - beginning	<u>45,178</u>
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Net Assets - ending	<u><u>\$ 48,450</u></u>
---------------------	-------------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-23 - Mile High Park**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2003**

	<b>SPECIAL REVENUE FUND</b> <hr/> General (RCA)
<b>ASSETS</b>	
Cash and cash equivalents	\$ 32,635
Interest receivable	175
	<hr/>
Total Assets	\$ 32,810
	<hr/>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Due to other governments	\$ 127
	<hr/>
Total Liabilities	127
	<hr/>
Fund Balances:	
Unreserved:	
Undesignated	32,683
	<hr/>
Total Fund Balances	32,683
	<hr/>
Total Liabilities and Fund Balances	\$ 32,810
	<hr/>
<b>Total fund balances - governmental fund</b>	\$ 32,683
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
Capital assets unused in governmental activities are not financial resources and, therefore, are not reported in funds.	15,767
	<hr/>
Net assets of governmental fund	\$ 48,450
	<hr/>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-23 - Mile High Park**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the Year Ended June 30, 2003**

	SPECIAL REVENUE FUND
	General (RCA)
<b>REVENUES</b>	
Property taxes	\$ 336
Special assessments	14,701
Investment earnings	874
Total Revenues	<u>15,911</u>
<b>EXPENDITURES</b>	
Salaries and benefits	3,542
Services and supplies	<u>8,671</u>
Total Expenditures	<u>12,213</u>
Net Change in Fund Balances	3,698
Fund Balances - beginning	<u>28,985</u>
Fund Balances - ending	<u><u>\$ 32,683</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-23 - Mile High Park  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Fund to the  
Statement of Activities  
For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Fund	\$ 3,698
---	----------

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities the cost of those assets is allocated over  
their estimated useful lives and reported as depreciation expense.  
This is the amount by which depreciation expense exceeded capital  
outlay in the current period.

(426)

Change in net assets of governmental activities	\$ 3,272
---	----------

The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-23 - Mile High Park  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 Zone R-23 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 3 miles of paved and unpaved roads.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone R-23 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-23 - Mile High Park**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-23 - Mile High Park**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-23 - Mile High Park**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-23 - Mile High Park**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, being depreciated:				
Infrastructure	\$ 17,045	\$ -	\$ -	\$ 17,045
Total capital assets, being depreciated	17,045	-	-	17,045
Less accumulated depreciation for:				
Infrastructure	(852)	(426)	-	(1,278)
Total accumulated depreciation	(852)	(426)	-	(1,278)
Total capital assets, being depreciated, net	\$ 16,193	\$ (426)	\$ -	\$ 15,767

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-23 - Mile High Park**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 4: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-23 - Mile High Park**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 4: RETIREMENT PLAN (continued)**

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**NOTE 5: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 6: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-23 - Mile High Park**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 6: RISK MANAGEMENT (continued)**

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 7: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.



**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-23 - Mile High Park**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (RCA)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ -	\$ -	\$ 336	\$ 336
Special assessments	14,000	14,000	14,701	701
Investment earnings	400	400	874	474
Total Revenues	14,400	14,400	15,911	1,511
EXPENDITURES				
Salaries and benefits	3,542	3,542	3,542	-
Services and supplies	17,832	17,832	8,671	9,161
Reserves and contingencies	22,010	22,010	-	22,010
Total Expenditures	43,384	43,384	12,213	31,171
Net Change in Fund Balances	\$ (28,984)	\$ (28,984)	3,698	\$ 32,682
Fund Balances - beginning			28,985	
Fund Balances - ending			\$ 32,683	

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
R-25 - LUCERNE VALLEY**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts  
County Service Area No. 70  
R-25 - Lucerne Valley  
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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - R-25 - Lucerne Valley

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - R-25 - Lucerne Valley (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - R-25 - Lucerne Valley, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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The County of San Bernardino Special District County Service Area No. 70 - R-25 - Lucerne Valley has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts  
County Service Area No. 70 - R-25 - Lucerne Valley  
Statement of Net Assets  
June 30, 2003**

**ASSETS**

Cash and cash equivalents  
Interest receivable

\$ 2,038  
11

Total Assets

2,049

**LIABILITIES**

-

**NET ASSETS**

Unrestricted

2,049

Total Net Assets

\$ 2,049

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - R-25 - Lucerne Valley**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 275
Services and supplies	391
Total Program Expenses	<u>666</u>

**PROGRAM REVENUES**

Charges for services	1,020
Net Program Revenue	<u>354</u>

**GENERAL REVENUES**

Property taxes	48
Investment earnings	56
Total General Revenues	<u>104</u>

Change in net assets	458
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Net Assets - beginning	<u>1,591</u>
------------------------	--------------

Net Assets - ending	<u>\$ 2,049</u>
---------------------	-----------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - R-25 - Lucerne Valley**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2003**

	SPECIAL REVENUE FUND
	General (SOC)
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,038
Interest receivable	11
Total Assets	<u>\$ 2,049</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities	<u>\$ -</u>
Fund Balances:	
Unreserved:	
Undesignated	<u>2,049</u>
Total Fund Balances	<u>2,049</u>
Total Liabilities and Fund Balances	<u>\$ 2,049</u>
<b>Total fund balances - governmental fund</b>	<b>\$ 2,049</b>
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
None	<u>-</u>
Net assets of governmental fund	<u>\$ 2,049</u>

The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-25 - Lucerne Valley**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the Year Ended June 30, 2003**

	SPECIAL REVENUE FUND
	General (SOC)
<b>REVENUES</b>	
Property taxes	\$ 48
Special assessments	1,020
Investment earnings	56
Total Revenues	<u>1,124</u>
<b>EXPENDITURES</b>	
Salaries and benefits	275
Services and supplies	391
Total Expenditures	<u>666</u>
Net Change in Fund Balances	458
Fund Balances - beginning	<u>1,591</u>
Fund Balances - ending	<u>\$ 2,049</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - R-25 - Lucerne Valley  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Fund to the  
Statement of Activities  
For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Fund	\$ 458
---	--------

Amounts reported for governmental activities in the statement of activities  
are different because:

None	<u>-</u>
------	----------

Change in net assets of governmental activities	<u>\$ 458</u>
---	---------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - R-25 - Lucerne Valley  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 - R-25 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 1 mile of unpaved roads.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 - R-25 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts  
County Service Area No. 70 - R-25 - Lucerne Valley  
Notes to Financial Statements  
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - R-25 - Lucerne Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - R-25 - Lucerne Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Currently, the CSA does not have any capitalized assets.

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts  
County Service Area No. 70 - R-25 - Lucerne Valley  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - R-25 - Lucerne Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 3: RETIREMENT PLAN (continued)**

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**NOTE 4: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - R-25 - Lucerne Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts  
County Service Area No. 70 - R-25 - Lucerne Valley  
Notes to Financial Statements  
June 30, 2003**

**NOTE 5: RISK MANAGEMENT (continued)**

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 6: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - R-25 - Lucerne Valley**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (SOC)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ 48	\$ 48
Special assessments	960	960	1,020	60
Investment earnings	30	30	56	26
Total Revenues	990	990	1,124	134
<b>EXPENDITURES</b>				
Salaries and benefits	275	275	275	-
Services and supplies	1,787	1,787	391	1,396
Reserves and contingencies	519	519	-	519
Total Expenditures	2,581	2,581	666	1,915
Net Change in Fund Balances	\$ (1,591)	\$ (1,591)	458	\$ 2,049
Fund Balances - beginning			1,591	
Fund Balances - ending			\$ 2,049	

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE R-26 - YUCCA MESA**

**REPORT ON AUDIT**

**JUNE 30, 2003**

County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-26  
Yucca Mesa  
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JANET M. VRYHEID, C.P.A.

Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone R-26 - Yucca Mesa

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone R-26 - Yucca Mesa (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone R-26 - Yucca Mesa, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

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The County of San Bernardino Special District County Service Area No. 70 - Zone R-26 - Yucca Mesa has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-26 - Yucca Mesa**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 17,585
Interest receivable	<u>93</u>

Total Assets	<u>17,678</u>
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**LIABILITIES**

	<u>-</u>
--	----------

**NET ASSETS**

Unrestricted	<u>17,678</u>
--------------	---------------

Total Net Assets	<u><u>\$ 17,678</u></u>
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The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-26 - Yucca Mesa**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 1,590
Services and supplies	6,669
Total Program Expenses	<u>8,259</u>

**PROGRAM REVENUES**

Charges for services	6,352
Net Program Expense	<u>(1,907)</u>

**GENERAL REVENUES**

Property taxes	194
Investment earnings	517
Total General Revenues	<u>711</u>

Change in Net Assets	(1,196)
----------------------	---------

Net Assets - beginning	<u>18,874</u>
------------------------	---------------

Net Assets - ending	<u>\$ 17,678</u>
---------------------	------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-26 - Yucca Mesa**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2003**

	<b>SPECIAL REVENUE FUND</b> <hr/> <b>General (SOD)</b> <hr/>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 17,585
Interest receivable	93
	<hr/>
Total Assets	<b>\$ 17,678</b>
	<hr/>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities	\$ -
	<hr/>
Fund Balances:	
Unreserved:	
Undesignated	17,678
	<hr/>
Total Fund Balances	17,678
	<hr/>
Total Liabilities and Fund Balances	<b>\$ 17,678</b>
	<hr/>
<b>Total fund balances - governmental fund</b>	<b>\$ 17,678</b>
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
None	-
	<hr/>
Net assets of governmental fund	<b>\$ 17,678</b>
	<hr/>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-26 - Yucca Mesa**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the Year Ended June 30, 2003**

	<b>SPECIAL REVENUE FUND</b> <hr/> General (SOD) <hr/>
<b>REVENUES</b>	
Property taxes	\$ 194
Special assessments	6,352
Investment earnings	517
	<hr/>
Total Revenues	7,063
	<hr/>
<b>EXPENDITURES</b>	
Salaries and benefits	1,590
Services and supplies	6,669
	<hr/>
Total Expenditures	8,259
	<hr/>
Net Change in Fund Balances	(1,196)
<b>Fund Balances - beginning</b>	18,874
	<hr/>
<b>Fund Balances - ending</b>	\$ 17,678
	<hr/>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-26 - Yucca Mesa  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Fund to the  
Statement of Activities  
For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Fund	\$ (1,196)
---	------------

Amounts reported for governmental activities in the statement of activities  
are different because:

None

Change in net assets of governmental activities	<u>\$ (1,196)</u>
---	-------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-26 - Yucca Mesa  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 Zone R-26 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 10 miles of unpaved roads.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone R-26 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-26 - Yucca Mesa  
Notes to Financial Statements  
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-26 - Yucca Mesa**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-26 - Yucca Mesa  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Currently, the CSA does not have any capital assets.

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.



**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-26 - Yucca Mesa  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-26 - Yucca Mesa**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 3: RETIREMENT PLAN (continued)**

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**NOTE 4: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-26 - Yucca Mesa**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-26 - Yucca Mesa**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: RISK MANAGEMENT (continued)**

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 6: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIII B to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-26 - Yucca Mesa**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (SOD)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ -	\$ -	\$ 194	\$ 194
Special assessments	6,265	6,265	6,352	87
Investment earnings	300	300	517	217
Total Revenues	6,565	6,565	7,063	498
EXPENDITURES				
Salaries and benefits	1,590	1,590	1,590	-
Services and supplies	10,877	10,877	6,669	4,208
Reserves and contingencies	12,972	12,972	-	12,972
Total Expenditures	25,439	25,439	8,259	17,180
Net Change in Fund Balances	\$ (18,874)	\$ (18,874)	(1,196)	\$ 17,678
Fund Balances - beginning			18,874	
Fund Balances - ending			\$ 17,678	

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE R-28 - JOSHUA TREE**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts  
County Service Area No. 70  
Zone R-28 - Joshua Tree  
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## ROGERS, ANDERSON, MALODY & SCOTT, LLP

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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone R-28 - Joshua Tree

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone R-28 - Joshua Tree (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone R-28 - Joshua Tree, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

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CERTIFIED PUBLIC ACCOUNTANTS  
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

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CERTIFIED PUBLIC ACCOUNTANTS

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The County of San Bernardino Special District County Service Area No. 70 - Zone R-28 - Joshua Tree has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-28 - Joshua Tree**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 10,500
Interest receivable	59
Capital assets, net of depreciation	<u>170,184</u>
Total Assets	<u>180,743</u>

**LIABILITIES**

-

**NET ASSETS**

Invested in capital assets	170,184
Unrestricted	<u>10,559</u>
Total Net Assets	<u><u>\$ 180,743</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-28 - Joshua Tree**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Services and supplies	\$ 546
Depreciation	5,868
Total Program Expenses	<u>6,414</u>

**PROGRAM REVENUES**

Net Program Expense	<u>(6,414)</u>
---------------------	----------------

**GENERAL REVENUES**

Investment earnings	326
Total General Revenues	<u>326</u>

Change in Net Assets	(6,088)
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Net Assets - beginning	<u>186,831</u>
------------------------	----------------

Net Assets - ending	<u><u>\$ 180,743</u></u>
---------------------	--------------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-28 - Joshua Tree**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2003**

	SPECIAL REVENUE FUND
	General (SOF)
<b>ASSETS</b>	
Cash and cash equivalents	\$ 10,500
Interest receivable	59
Total Assets	<u>\$ 10,559</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities	<u>\$ -</u>
Fund Balances:	
Unreserved:	
Undesignated	<u>10,559</u>
Total Fund Balances	<u>10,559</u>
Total Liabilities and Fund Balances	<u>\$ 10,559</u>
<b>Total fund balances - governmental fund</b>	\$ 10,559
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>170,184</u>
Net assets of governmental fund	<u>\$ 180,743</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-28 - Joshua Tree**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the Year Ended June 30, 2003**

	SPECIAL REVENUE FUND General (SOF)
<b>REVENUES</b>	
Investment earnings	\$ 326
Total Revenues	326
<b>EXPENDITURES</b>	
Services and supplies	546
Total Expenditures	546
Net Change in Fund Balances	(220)
<b>Fund Balances - beginning</b>	10,779
<b>Fund Balances - ending</b>	\$ 10,559

The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-28 - Joshua Tree  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 - Zone R-28 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 1 mile of paved road.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 - Zone R-28 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-28 - Joshua Tree  
Notes to Financial Statements  
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-28 - Joshua Tree**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-28 - Joshua Tree**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-28 - Joshua Tree**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, being depreciated:				
Infrastructure	\$ 234,736	\$ -	\$ -	\$ 234,736
Total capital assets, being depreciated	234,736	-	-	234,736
Less accumulated depreciation for:				
Infrastructure	(58,684)	(5,868)	-	(64,552)
Total accumulated depreciation	(58,684)	(5,868)	-	(64,552)
Total capital assets, being depreciated, net	\$ 176,052	\$ (5,868)	\$ -	\$ 170,184

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-28 - Joshua Tree  
Notes to Financial Statements  
June 30, 2003**

**NOTE 4: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-28 - Joshua Tree**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 4: RETIREMENT PLAN (continued)**

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<b>Year Ended June 30,</b>	<b>Annual Pension Cost (in thousands)</b>	<b>Percentage Contributed</b>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**NOTE 5: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 6: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-28 - Joshua Tree**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 6: RISK MANAGEMENT (continued)**

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<b>Fiscal Year</b>	<b>Beginning of Fiscal Year Liability (in thousands)</b>	<b>Current Year Claims and Changes in Estimates (in thousands)</b>	<b>Claims Payments (in thousands)</b>	<b>End of Fiscal Year Liability (in thousands)</b>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 7: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-28 - Joshua Tree**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (SOF)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Investment earnings	\$ -	\$ -	\$ 326	\$ 326
Total Revenues	-	-	326	326
EXPENDITURES				
Services and supplies	10,779	10,779	546	10,233
Total Expenditures	10,779	10,779	546	10,233
Net Change in Fund Balances	\$ (10,779)	\$ (10,779)	(220)	\$ 10,559
Fund balances - beginning			10,779	
Fund balances - ending			\$ 10,559	

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE R-29 - YUCCA MESA**

**REPORT ON AUDIT**

**JUNE 30, 2003**



**County of San Bernardino Special Districts  
County Service Area No. 70  
Zone R-29 - Yucca Mesa  
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**ROGERS, ANDERSON, MALODY & SCOTT, LLP**

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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone R-29 - Yucca Mesa

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone R-29 - Yucca Mesa (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone R-29 - Yucca Mesa, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**MEMBERS**

AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

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The County of San Bernardino Special District County Service Area No. 70 - Zone R-29 - Yucca Mesa has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-29 - Yucca Mesa**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents  
Interest receivable

\$ 6,975  
43

Total Assets

7,018

**LIABILITIES**

-

**NET ASSETS**

Unrestricted

7,018

Total Net Assets

\$ 7,018

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-29 - Yucca Mesa  
Statement of Activities  
For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 2,294
Services and supplies	5,566
Total Program Expenses	<u>7,860</u>

**PROGRAM REVENUES**

Charges for services	5,667
Net Program Expense	<u>(2,193)</u>

**GENERAL REVENUES**

Property taxes	141
Investment earnings	244
Total General Revenues	<u>385</u>

Change in Net Assets (1,808)

**Net Assets - beginning** 8,826

**Net Assets - ending** \$ 7,018

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-29 - Yucca Mesa**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2003**

	SPECIAL REVENUE FUND
	General (RCB)
<b>ASSETS</b>	
Cash and cash equivalents	\$ 6,975
Interest receivable	43
Total Assets	<u>\$ 7,018</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities	<u>\$ -</u>
Fund Balances:	
Unreserved:	
Undesignated	<u>7,018</u>
Total Fund Balances	<u>7,018</u>
Total Liabilities and Fund Balances	<u>\$ 7,018</u>
<b>Total fund balances - governmental fund</b>	<b>\$ 7,018</b>
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
None	<u>-</u>
Net assets of governmental fund	<u><u>\$ 7,018</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-29 - Yucca Mesa**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the Year Ended June 30, 2003**

	<b>SPECIAL REVENUE FUND</b> <hr/> General (RCB) <hr/>
<b>REVENUES</b>	
Property taxes	\$ 141
Special assessments	5,667
Investment earnings	244
Total Revenues	<hr/> 6,052 <hr/>
<b>EXPENDITURES</b>	
Salaries and benefits	2,294
Services and supplies	5,566
Total Expenditures	<hr/> 7,860 <hr/>
Net Change in Fund Balances	(1,808)
<b>Fund Balances - beginning</b>	<hr/> 8,826 <hr/>
<b>Fund Balances - ending</b>	<hr/> <b>\$ 7,018</b> <hr/>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-29 - Yucca Mesa  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Fund to the  
Statement of Activities  
For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Fund	\$ (1,808)
---	------------

Amounts reported for governmental activities in the statement of activities  
are different because:

None	<u>-</u>
------	----------

Change in net assets of governmental activities	<u>\$ (1,808)</u>
---	-------------------

The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-29 - Yucca Mesa**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting entity**

The County Service Area (CSA) No. 70 Zone R-29 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 1 mile of unpaved road.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone R-29 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-29 - Yucca Mesa**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-29 - Yucca Mesa  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-29 - Yucca Mesa**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Currently, the CSA does not have any capital assets.

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-29 - Yucca Mesa**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-29 - Yucca Mesa**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 3: RETIREMENT PLAN (continued)**

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**NOTE 4: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-29 - Yucca Mesa**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-29 - Yucca Mesa**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: RISK MANAGEMENT (continued)**

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 6: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.



**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-29 - Yucca Mesa**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (RCB)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ 141	\$ 141
Special assessments	6,271	6,271	5,667	(604)
Investment earnings	400	400	244	(156)
Total Revenues	6,671	6,671	6,052	(619)
<b>EXPENDITURES</b>				
Salaries and benefits	2,294	2,294	2,294	-
Services and supplies	8,178	8,178	5,566	2,612
Reserves and contingencies	5,026	5,026	-	5,026
Total Expenditures	15,498	15,498	7,860	7,638
Net Change in Fund Balances	\$ (8,827)	\$ (8,827)	(1,808)	\$ 7,019
Fund Balances - beginning			8,826	
Fund Balances - ending			\$ 7,018	

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE R-30 - VERDEMONT**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts  
County Service Area No. 70  
Zone R-30 - Verdemon  
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## ROGERS, ANDERSON, MALODY & SCOTT, LLP

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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone R-30 - Verdemont

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone R-30 - Verdemont (CSA), as a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone R-30 - Verdemont, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

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CERTIFIED PUBLIC ACCOUNTANTS  
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

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CERTIFIED PUBLIC ACCOUNTANTS

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The County of San Bernardino Special District County Service Area No. 70 - Zone R-30 - Verdernont has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-30 - Verdemont**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 4,147
Interest receivable	<u>24</u>
Total Assets	<u>4,171</u>

**LIABILITIES**

Due to other governments	<u>64</u>
--------------------------	-----------

**NET ASSETS**

Unrestricted	<u>4,107</u>
Total Net Assets	<u><u>\$ 4,107</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-30 - Verdemont**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 621
Services and supplies	<u>1,421</u>
Total Program Expenses	<u>2,042</u>

**PROGRAM REVENUES**

Charges for services	<u>2,150</u>
Net Program Revenue	<u>108</u>

**GENERAL REVENUES**

Property taxes	28
Investment earnings	<u>135</u>
Total General Revenues	<u>163</u>

Change in Net Assets	271
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Net Assets - beginning	<u>3,836</u>
------------------------	--------------

Net Assets - ending	<u><u>\$ 4,107</u></u>
---------------------	------------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-30 - Verdemont**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2003**

	SPECIAL REVENUE FUND
	General (RCC)
<b>ASSETS</b>	
Cash and cash equivalents	\$ 4,147
Interest receivable	24
Total Assets	<u>\$ 4,171</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities	
Due to other governments	\$ 64
Total Liabilities	<u>64</u>
Fund Balances:	
Unreserved:	
Undesignated	<u>4,107</u>
Total Fund Balances	<u>4,107</u>
Total Liabilities and Fund Balances	<u>\$ 4,171</u>
<b>Total fund balances - governmental fund</b>	<b>\$ 4,107</b>
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
None	<u>-</u>
Net assets of governmental fund	<u>\$ 4,107</u>

The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-30 - Verdemon**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the Year Ended June 30, 2003**

	<b>SPECIAL REVENUE FUND</b> <hr/> <b>General (RCC)</b> <hr/>
<b>REVENUES</b>	
Property taxes	\$ 28
Special assessments	2,150
Investment earnings	135
Total Revenues	<hr/> 2,313 <hr/>
<b>EXPENDITURES</b>	
Salaries and benefits	621
Services and supplies	1,421
Total Expenditures	<hr/> 2,042 <hr/>
Net Change in Fund Balances	271
Fund Balances - beginning	<hr/> 3,836 <hr/>
Fund Balances - ending	<hr/> \$ 4,107 <hr/>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-30 - Verdemont  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Fund to the  
Statement of Activities  
For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Fund	\$ 271
---	--------

Amounts reported for governmental activities in the statement of activities  
are different because:

None

Change in net assets of governmental activities	<u>\$ 271</u>
---	---------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-30 - Verdemont  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 R-30 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 1 mile of unpaved road, in the Devore/Glen Helen area.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 R-30 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-30 - Verdemon**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-30 - Verdemont**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-30 - Verdemont**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Currently, the CSA does not have any capital assets.

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-30 - Verdemon**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 343 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-30 - Verdemon**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 3: RETIREMENT PLAN (continued)**

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**NOTE 4: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-30 - Verdemont**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-30 - Verdemont**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: RISK MANAGEMENT (continued)**

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 6: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-30 - Verdemont**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (RCC)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ 28	\$ 28
Special assessments	2,200	2,200	2,150	(50)
Investment earnings	50	50	135	85
Total Revenues	2,250	2,250	2,313	63
<b>EXPENDITURES</b>				
Salaries and benefits	621	621	621	-
Services and supplies	2,641	2,641	1,421	1,220
Reserves and contingencies	2,824	2,824	-	2,824
Total Expenditures	6,086	6,086	2,042	4,044
Net Change in Fund Balances	<u>\$ (3,836)</u>	<u>\$ (3,836)</u>	271	<u>\$ 4,107</u>
Fund Balances - beginning			3,836	
Fund Balances - ending			\$ 4,107	

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE R-31 - LYTLE CREEK**

**REPORT ON AUDIT**

**JUNE 30, 2003**

County of San Bernardino Special Districts  
County Service Area No. 70  
Zone R-31 - Lytle Creek  
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## ROGERS, ANDERSON, MALODY & SCOTT, LLP

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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone R-31 - Lytle Creek

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone R-31 - Lytle Creek (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone R-31 - Lytle Creek, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

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CERTIFIED PUBLIC ACCOUNTANTS  
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

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The County of San Bernardino Special District County Service Area No. 70 - Zone R-31 - Lytle Creek has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-31 - Lytle Creek  
Statement of Net Assets  
June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 4,139
Interest receivable	22
Capital assets, net of depreciation	<u>136,618</u>
Total Assets	<u>140,779</u>

**LIABILITIES**

Due to other governments	<u>191</u>
--------------------------	------------

**NET ASSETS**

Invested in capital assets	136,618
Unrestricted	<u>3,970</u>
Total Net Assets	<u>\$ 140,588</u>

The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-31 - Lytle Creek**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 1,339
Services and supplies	2,484
Depreciation	4,879
Total Program Expenses	<u>8,702</u>

**PROGRAM REVENUES**

Charges for services	<u>2,779</u>
Net Program Expense	<u>(5,923)</u>

**GENERAL REVENUES**

Property taxes	34
Investment earnings	153
Total General Revenues	<u>187</u>

Change in Net Assets	(5,736)
----------------------	---------

Net Assets - beginning	<u>146,324</u>
------------------------	----------------

Net Assets - ending	<u>\$ 140,588</u>
---------------------	-------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-31 - Lytle Creek**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2003**

	SPECIAL REVENUE FUND General (RCE)
<b>ASSETS</b>	
Cash and cash equivalents	\$ 4,139
Interest receivable	22
Total Assets	<u>\$ 4,161</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Due to other governments	<u>\$ 191</u>
Total Liabilities	<u>191</u>
Fund Balances:	
Unreserved:	
Undesignated	<u>3,970</u>
Total Fund Balances	<u>3,970</u>
Total Liabilities and Fund Balances	<u>\$ 4,161</u>
<b>Total fund balances - governmental fund</b>	<b>\$ 3,970</b>
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	<u>136,618</u>
Net assets of governmental fund	<u>\$ 140,588</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-31 - Lytle Creek**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the Year Ended June 30, 2003**

	SPECIAL REVENUE FUND General (RCE)
<b>REVENUES</b>	
Property taxes	\$ 34
Special assessments	2,779
Investment earnings	153
Total Revenues	2,966
<b>EXPENDITURES</b>	
Salaries and benefits	1,339
Services and supplies	2,484
Total Expenditures	3,823
Net Change in Fund Balances	(857)
Fund Balances - beginning	4,827
Fund Balances - ending	\$ 3,970

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-31 - Lytle Creek  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Fund to the  
Statement of Activities  
For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Fund	\$ (857)
---	----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

(4,879)
---------

Change in net assets of governmental activities
---

<u>\$ (5,736)</u>
-------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-31 - Lytle Creek  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 Zone R-31 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 1 mile of paved road.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone R-31 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-31 - Lytle Creek**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-31 - Lytle Creek**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-31 - Lytle Creek**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-31 - Lytle Creek**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, being depreciated:				
Infrastructure	\$ 195,168	\$ -	\$ -	\$ 195,168
Total capital assets, being depreciated	195,168	-	-	195,168
Less accumulated depreciation for:				
Infrastructure	(53,671)	(4,879)	-	(58,550)
Total accumulated depreciation	(53,671)	(4,879)	-	(58,550)
Total capital assets, being depreciated, net	\$ 141,497	\$ (4,879)	\$ -	\$ 136,618

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-31 - Lytle Creek  
Notes to Financial Statements  
June 30, 2003**

**NOTE 4: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-31 - Lytle Creek**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 4: RETIREMENT PLAN (continued)**

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<b>Year Ended June 30,</b>	<b>Annual Pension Cost (in thousands)</b>	<b>Percentage Contributed</b>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**NOTE 5: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 6: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-31 - Lytle Creek**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 6: RISK MANAGEMENT (continued)**

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<b>Fiscal Year</b>	<b>Beginning of Fiscal Year Liability (in thousands)</b>	<b>Current Year Claims and Changes in Estimates (in thousands)</b>	<b>Claims Payments (in thousands)</b>	<b>End of Fiscal Year Liability (in thousands)</b>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 7: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-31 - Lytle Creek**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (RCE)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ 34	\$ 34
Special assessments	3,000	3,000	2,779	(221)
Investment earnings	200	200	153	(47)
Total Revenues	3,200	3,200	2,966	(234)
<b>EXPENDITURES</b>				
Salaries and benefits	1,339	1,339	1,339	-
Services and supplies	5,457	5,457	2,484	2,973
Reserves and contingencies	1,231	1,231	-	1,231
Total Expenditures	8,027	8,027	3,823	4,204
Net Change in Fund Balances	<u>\$ (4,827)</u>	<u>\$ (4,827)</u>	(857)	<u>\$ 3,970</u>
Fund Balances - beginning			4,827	
Fund Balances - ending			\$ 3,970	

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE R-33 - BIG BEAR CITY**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-33  
Big Bear City  
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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone R-33 - Big Bear City

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone R-33 - Big Bear City (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone R-33 - Big Bear City, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

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The County of San Bernardino Special District County Service Area No. 70 - Zone R-33 - Big Bear City has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-33 - Big Bear City**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 45,508
Interest receivable	239
Capital assets, net of depreciation	<u>136,276</u>
Total Assets	<u>182,023</u>

**LIABILITIES**

Due to other governments	<u>64</u>
--------------------------	-----------

**NET ASSETS**

Invested in capital assets	136,276
Unrestricted	<u>45,683</u>
Total Net Assets	<u><u>\$ 181,959</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-33 - Big Bear City  
Statement of Activities  
For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 3,618
Services and supplies	1,746
Depreciation	4,699
Total Program Expenses	<u>10,063</u>

**PROGRAM REVENUES**

Charges for services	<u>13,081</u>
Net Program Revenue	<u>3,018</u>

**GENERAL REVENUES**

Property taxes	1,606
Investment earnings	1,220
Total General Revenues	<u>2,826</u>

Change in Net Assets	5,844
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Net Assets - beginning	<u>176,115</u>
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Net Assets - ending	<u>\$ 181,959</u>
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-33 - Big Bear City  
Balance Sheet  
Governmental Funds  
June 30, 2003**

	SPECIAL REVENUE FUND General (RCN)	OTHER GOVERNMENTAL FUND Slurry (CNS)	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 45,017	\$ 491	\$ 45,508
Interest receivable	149	90	239
<b>Total Assets</b>	<b>\$ 45,166</b>	<b>\$ 581</b>	<b>\$ 45,747</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Due to other governments	\$ 64	-	\$ 64
<b>Total Liabilities</b>	<b>64</b>	<b>-</b>	<b>64</b>
Fund Balances:			
Unreserved:			
Undesignated	45,102	581	45,683
<b>Total Fund Balances</b>	<b>45,102</b>	<b>581</b>	<b>45,683</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 45,166</b>	<b>\$ 581</b>	

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds

136,276

Net assets of governmental funds

\$ 181,959

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-33 - Big Bear City**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2003**

	SPECIAL REVENUE FUND General (RCN)	OTHER GOVERNMENTAL FUND Slurry (CNS)	Total Governmental Funds
<b>REVENUES</b>			
Property taxes	\$ 1,606	\$ -	\$ 1,606
Special assessments	13,081	-	13,081
Investment earnings	639	581	1,220
<b>Total Revenues</b>	<b>15,326</b>	<b>581</b>	<b>15,907</b>
<b>EXPENDITURES</b>			
Salaries and benefits	3,618	-	3,618
Services and supplies	1,682	-	1,682
Capital outlay:			
Land improvements	-	64	64
<b>Total Expenditures</b>	<b>5,300</b>	<b>64</b>	<b>5,364</b>
<b>Excess of Revenues Over Expenditures</b>	<b>10,026</b>	<b>517</b>	<b>10,543</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in	-	64	64
Transfer out	(64)	-	(64)
<b>Total Other Financing Sources (Uses)</b>	<b>(64)</b>	<b>64</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>9,962</b>	<b>581</b>	<b>10,543</b>
<b>Fund Balances - beginning</b>	<b>35,140</b>	<b>-</b>	<b>35,140</b>
<b>Fund Balances - ending</b>	<b>\$ 45,102</b>	<b>\$ 581</b>	<b>\$ 45,683</b>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-33 - Big Bear City**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Funds	\$	10,543
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

(4,699)

Change in net assets of governmental activities	\$	5,844
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5,844

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-33 - Big Bear City  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 Zone R-33 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 1 mile of paved road on Fairway Blvd. in the City of Big Bear.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone R-33 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-33 - Big Bear City**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-33 - Big Bear City**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-33 - Big Bear City**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-33 - Big Bear City**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, being depreciated:				
Infrastructure	\$ 187,966	\$ -	\$ -	\$ 187,966
Total capital assets, being depreciated	187,966	-	-	187,966
Less accumulated depreciation for:				
Infrastructure	(46,991)	(4,699)	-	(51,690)
Total accumulated depreciation	(46,991)	(4,699)	-	(51,690)
Total capital assets, being depreciated, net	\$ 140,975	\$ (4,699)	\$ -	\$ 136,276

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-33 - Big Bear City**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 4: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-33 - Big Bear City**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 4: RETIREMENT PLAN (continued)**

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<b>Year Ended June 30,</b>	<b>Annual Pension Cost (in thousands)</b>	<b>Percentage Contributed</b>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**NOTE 5: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 6: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-33 - Big Bear City  
Notes to Financial Statements  
June 30, 2003**

**NOTE 6: RISK MANAGEMENT (continued)**

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 7: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-33 - Big Bear City**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (RCN)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ 1,606	\$ 1,606
Special assessments	20,000	20,000	13,081	(6,919)
Investment earnings	500	500	639	139
 Total Revenues	 20,500	 20,500	 15,326	 (5,174)
<b>EXPENDITURES</b>				
Salaries and benefits	3,618	3,618	3,618	-
Services and supplies	16,576	16,576	1,682	14,894
Reserves and contingencies	15,446	15,446	-	15,446
 Total Expenditures	 35,640	 35,640	 5,300	 30,340
 Excess of Revenues Over (Under) Expenditures	 (15,140)	 (15,140)	 10,026	 25,166
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer out	(20,000)	(20,000)	(64)	19,936
 Total Other Financing Sources (Uses)	 (20,000)	 (20,000)	 (64)	 19,936
 Net Change in Fund Balances	 \$ (35,140)	 \$ (35,140)	 9,962	 \$ 45,102
 Fund Balances - beginning			35,140	
 Fund Balances - ending			\$ 45,102	